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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 08/14/08

Defense and security:

- 1) Prime Minister Fukuda, LDP Secretary General Aso concur on submission during extra Diet session of bill extending MSDF refueling services (Asahi)
- 2) Government distressed by tendency in ruling parties to put end to Indian Ocean refueling mission and substitute some other Afghan contribution (Tokyo Shimbun)
- 3) Sasebo mayor demands measures that will prevent a recurrence of submarine radiation leakage (Tokyo Shimbun)

North Korea problem:

- 4) Japan, North Korea agree that abduction reinvestigation will be completed by the fall, but there is a risk for Japan in easing of sanctions in return (Nikkei)
- 5) U.S. official welcomes the progress in Japan-North Korea abduction talks (Yomiuri)

Economy:

- 6) Prime Minister Fukuda now positive about compiling a large-scale supplementary budget this fall to help the slowing economy (Tokyo Shimbun)
- 7) Aso and the New Komeito are in line on a large-scale supplementary budget to stimulate the economy, but Fukuda fears it could be filled with pork-barrel (Nikkei)
- 8) If the ruling camp's economic stimulus package is on a 1-trillion yen scale, the problem will be where to find the fiscal resources to pay for it (Yomiuri)

Political agenda:

- 9) With Aso lining up with the New Komeito, the parties are taking the lead in managing the policy agenda, including the timing for opening the Diet (Mainichi)

10) Yomiuri poll on the DPJ presidential election finds 71 PERCENT of nation (76 PERCENT of DPJ supporters) wants to see a real election with several candidates (Yomiuri)

Articles:

1) Gov't to present bill for MSDF refueling extension

ASAHI (Page 1) (Abridged)
August 14, 2008

Prime Minister Fukuda yesterday met with Taro Aso, secretary general of his ruling Liberal Democratic Party, and discussed the government's course of action toward this fall's extraordinary Diet session. Fukuda indicated that he would give priority to extending the new Antiterror Special Measures Law, under which the Maritime Self-Defense Forces is currently tasked with refueling activities in the Indian Ocean to back up antiterror operations in Afghanistan. Fukuda and Aso confirmed that the government would present a bill to the Diet at its forthcoming extraordinary session. Earlier in the day, the LDP and its coalition partner, New Komeito, held a meeting of their executives and agreed to submit a supplementary budget at the extra Diet session. "We must boost the economy," Fukuda said. "This priority is extremely high," he added. With this, Fukuda told Aso that he would consider measures to turn the economy around.

In the meeting was LDP Diet Affairs Committee Chairman Tadamori Oshima. Fukuda and the LDP executives discussed the MSDF's refueling activities in the Indian Ocean. "My understanding is that this is a huge international issue," Fukuda said, "so we must make a strong

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appeal." With this, he voiced his strong intention to extend the law at the extra Diet session so the MSDF mission can be continued.

However, the leading opposition Democratic Party of Japan (Minshuto) will oppose extending the law. It would become unavoidable for the ruling coalition to take a second vote in the House of Representatives in order for the legislation to get through the Diet since the bill would be voted down in the opposition-controlled House of Councillors. But New Komeito is reluctant to do so.

The LDP and New Komeito will continue to coordinate a timetable aiming to call the extra Diet session in early September or later.

2) With ruling camp clamoring for alternate plan to refueling mission, gov't at a loss to come up with any ideas

TOKYO SHIMBUN (Page 1) (Full)
August 14, 2008

The government is now in a fix over the Maritime Self-Defense Force's refueling activities in the Indian Ocean as the ruling Liberal Democratic Party's executives are calling for the government to consider taking other measures to satisfy Japan's international contribution instead of continuing the MSDF's refueling mission.

A number of key lawmakers in the LDP and its coalition partner New Komeito are reluctant for the House of Representatives to take an overriding second vote on a bill to amend the new Antiterrorism Special Measures Law in order to pass the legislation after its is voted down in the opposition-controlled House of Councillors. In particular, the New Komeito is strongly resistant to taking a second vote in the lower chamber.

Given such circumstances, LDP Secretary General Taro Aso told the press in an interview on Aug. 5: "If they say no, then we'll have to think about what we can do instead of continuing refueling activities." LDP General Council Chairman Takashi Sasagawa also referred to the necessity of alternative measures.

Former LDP Secretary General Koichi Kato also said on an Aug. 12 satellite TV program: "It would be difficult to take a second vote. We should reconstruct a grand design for the war on terror."

Aso and Sasagawa advocated tasking the MSDF with escorting Japanese

oil tankers in the Indian Ocean.

3) Sasebo mayor asks for preventive steps over nuclear sub's radiation leak

TOKYO SHIMBUN (Page 2) (Full)
August 14, 2008

The USS Houston, a U.S. nuclear-powered submarine, was recently found to have leaked radiation in Nagasaki Prefecture's Sasebo port. On this issue, Sasebo Mayor Norio Tomonaga and his city's municipal assembly speaker, Hiroyuki Matsuo, called at the Foreign Ministry yesterday and met with North American Affairs Bureau Director General Shinichi Nishimiya. In the meeting, Tomonaga and Matsuo said the United States should look into the cause of the incident and take steps to prevent a recurrence.

At the same time, the two asked the government again to inform

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base-hosting municipalities about incidents involving U.S. nuclear-powered vessels and to release a statement over safety.

"Sasebo City's residents are very concerned about even a small amount of radiation leaking," Tomonaga said. "Sasebo City is where U.S. nuclear-powered submarines make frequent port calls," he added, "so it's very regrettable."

Nishimiya said: "We immediately asked the U.S. government to determine the cause of the radiation leak and take steps to prevent such an incident from recurring. We will convey the request this time (to the U.S. government) as well, and we will wait for them to come up with a report."

4) Japan, North Korea agree on plan to complete abduction probe by fall, but Fukuda may face risk over lifting sanctions

NIKKEI (Page 2) (Excerpts)
August 14, 2008

Japan and North Korea in their official working-level talks in Shenyang, China, agreed in the early morning of the 13th that North Korea would reinvestigate the issue of Japanese nationals abducted by its agents as soon as possible and try to complete the process by this fall. Japan has agreed to lift two economic sanction measures, including one banning chartered flights between the two countries, once the reinvestigation starts. Even so, many details have yet to be determined, leaving a possible risk for the Fukuda administration.

Song Il Ho, North Korean envoy in charge of normalization talks with Japan, showed up at a Shenyang hotel before dawn on the 13th, and said angrily: "Why were the talks restarted so many hours late?" It took as many as 10 hours until talks were resumed after a break following the end of the morning session on the 12th. An informed Japanese source said that in the process of both sides reporting to their governments on the contents of the agreement, "the Japanese government complained of the contents as insufficient."

One of the contentious points was the timing for Japan's partial removal of sanctions. North Korea had insisted this be done quickly, but Japan had proposed the time when the investigation starts. Coordination in the Japanese government reportedly lasted until an hour before dawn.

There are many points remaining. Both sides agreed that the North would complete the investigation by the fall to the extent possible, but they have yet to decide when to start the investigation. The two countries also have not determined the details of an investigative organization Japan has proposed to set up this month and a mechanism to enable Japan to check the state of the investigation.

5) U.S. welcomes progress in Japan-North Korea talks

YOMIURI (Page 3) (Full)
August 14, 2008

Speaking before reporters on Aug. 13, Sung Kim, director of the State Department's Office of Korean Affairs and special U.S. envoy to the six-party talks, praised the outcome of the latest Japan-North Korea talks. He said: "I understand the talks were constructive. I expect to see specific progress."

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Washington's welcoming stance toward the progress in the Japan-North Korea talks stems from the judgment that improvement in Japan-North Korea relations and Japan's participation in the program of energy aid for the North based on a six-party agreement are indispensable to move the six-party process forward.

The Bush administration has indicated that a removal of North Korea from its list of state sponsors of terrorism is not directly linked to the abduction issue. Even so, if the abduction issue, which is cited as one of the reasons for the U.S. to keep the North on the list, comes closer to a settlement, the administration will certainly find itself easier to take the North off the list.

Conversely, should the Bush administration drop the North from the list before seeing satisfactory progress on the abduction issue, criticism will inevitably mount in the U.S., as Senator Lieberman said: "The U.S. may harm the relationship with Japan, which is a close ally for the U.S." The U.S. government is expected to continue to watch carefully the process and outcome of a reinvestigation by the North.

6) Fukuda indicates willingness to compile large-scale supplementary budget

TOKYO SHIMBUN (Page 1) (Full)
August 14, 2008

Prime Minister Fukuda, Liberal Democratic Party's (LDP) Secretary General Taro Aso and Diet Affairs Committee Chairman Tadamori Oshima met at the Prime Minister's Official Residence for about one hour yesterday afternoon. In the meeting, Fukuda responded positively to a proposal by Aso and Oshima to compile a large-scale supplementary budget for fiscal 2008 to finance an economic stimulus package and to submit it to the upcoming extraordinary Diet session. Fukuda said: "We must take some measures (to buoy up the economy). The order of priority of this is extremely high."

Prior to the meeting, the secretaries general and the Diet Affairs Committee chairmen of the LDP and the New Komeito met in Tokyo and decided to ask the government to compile a large-scale second budget.

The LDP insisted that the government should submit an extra budget bill at the outset of the next session and show its eagerness to tackle such issues as the recent steep rise in commodity prices and the looming economic recession. The New Komeito called for a budget worth more than one trillion yen.

In the talks by senior members of the LDP and the New Komeito, no conclusion was reached on when to convene the next extraordinary Diet session. In the trilateral meeting, it was confirmed that a decision would be made next week.

On the timing for the opening of the session, the LDP has insisted on "early September," aiming at enacting a bill amending the new Antiterrorism Special Measures Law to continue the Maritime Self-Defense Force's refueling mission in the Indian Ocean. Meanwhile, the New Komeito, which remains cautious about using revote in the House of Representatives to force through the bill, has asserted "late September."

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7) War of nerves over scale of supplementary budget: Aso, New Komeito in agreement in pursuit of large scale budget; Prime

minister concerned about pork-barrel

NIKKEI (Page 2) (Excerpts)
August 14, 2008

Prime Minister Yasuo Fukuda yesterday evening met with Secretary General Taro Aso of the Liberal Democratic Party (LDP). The Prime Minister in the meeting took a positive stance toward compiling a fiscal 2008 supplementary budget, saying, "Compiling an economic stimulus package is high-priority." However, he stopped short of clarifying the size of a supplementary budget, out of concern that the compilation of a supplementary budget could incur criticism as being filled with pork-barrel measures. He is conscious that the New Komeito, which is seeking a large-scale supplementary budget, is cautious about a bill extending the law governing the Maritime Self-Defense Force's (MSDF) refueling operation in the Indian Ocean. Bargaining between the ruling camp and the prime minister over tradeoffs will likely continue, intertwined with the issue of when to convene the next extraordinary Diet session.

Bargaining intertwined with refueling law, timing of convening extraordinary Diet session

The focus of the meeting was on how to handle a supplementary budget that will incorporate an economic stimulus package featuring measures to address the steep rise in crude oil prices and assistance to small- and medium-size businesses. Meeting the press after his talks with the prime minister, Aso revealed the prime minister's comment, "The prime minister said that economic stimulus measures must be taken."

However, the two did not reach an agreement on the scale of the proposed supplementary budget. Aso said, "If an economic stimulus package is to be compiled, figures might be set in a manner that makes resorting to compiling a supplementary budget a foregone conclusion. There still are some elements that need further consideration."

Senior officials of the LDP and the New Komeito at their lunch meeting, held prior to the meeting between the prime minister and Aso, agreed on the policy of submitting a large-scale supplementary budget bill to the next extraordinary Diet session. The New Komeito called for a large-scale package. Aso agreed, saying, "Piecemeal measures will not do." One senior New Komeito official called for a one-trillion yen scale package.

Though the prime minister is positive toward compiling a supplementary budget, he did not give the go-ahead to Aso, who shares the same view with the New Komeito, because he is concerned that a large-scale supplementary budget would draw criticism. One senior official of the ruling parties on the evening of the same day underscored, "It would be meaningless to compile a small-scale budget, listening to bureaucrats." There is an atmosphere that the ruling parties will increase pressure on the prime minister, whose stance remains vague.

Regarding the extension of the law governing the MSDF's refueling operation in the Indian Ocean, which expires next January, a gap between the New Komeito, which is cautious about the extension, and the prime minister remains unfilled. The prime minister indicated

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his desire to extend the law, saying, "I must strongly make a public appeal that this is a very serious issue for Japan from an international perspective."

Since opposition parties, such as the Democratic Party of Japan (DPJ or Minshuto), in the Upper House are bound to vote down the bill, it is necessary to take a revote in order to pass the bill by a two-thirds majority or more in the Lower House. However, the New Komeito is negative toward the idea, because such a method would give the impression that the ruling parties railroaded the bill.

According to one senior ruling party official, the prime minister during the meeting with Aso gave consideration to the New Komeito, noting that he does not take the view that there must be a

two-thirds majority second vote, though he at the same time indicated a stance of adhering to his desire to see the bill gain Diet approval. One senior New Komeito official on the evening of the same day said, "We will approve as far as the passage of the bill in the Lower House." However, the party is strongly opposing the idea of putting the bill to a revote in the Lower House after it is voted down in the Upper House. The path leading to passage of the bill is not yet in sight.

8) Supplementary budget: Fiscal resources to finance economic stimulus package contentious issue: Additional issuance of deficit-covering government bonds likely, if budget scale reaches 1 trillion yen

YOMIURI (Page 2) (Full)
August 14, 2008

The government and the ruling parties on August 13 started considering the submission of a fiscal 2008 supplementary budget bill to the next extraordinary Diet session. Two points of contention are likely: the specifics of the planned economic stimulus package and where to find the necessary fiscal resources, given the nation's serious fiscal straits.

The scale of the envisaged supplementary budget will depend on the amount of specific measures incorporated in a comprehensive economic stimulus package, which the government is expected to release in late August, according to a senior official at the Finance Ministry.

Specific measures will likely include steps to address soaring crude oil prices, such as fuel subsidies to farmers who grow vegetables in vinyl greenhouses and subsidies to households that install a photovoltaic electrical system, and measures to promote energy saving and the development of new energy.

Measures that would not have been included in past packages, such as measures on medical services and irregular employment, and speedy settlement of pension premium contribution record errors, will also likely be incorporated. The package will also most likely include a cut in expressway tolls.

Funds to finance the supplementary budget will likely be drawn from portions of funds reserved in the fiscal 2008 budget (334.9 billion yen) that have been earmarked for unexpected expenditures, such as natural disaster-related spending, and leftover budget funds (631.9 billion yen) from the fiscal 2007 budget.

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However, if the scale of the supplementary budget jumps to 1 trillion yen, which some ruling party members are seeking, there would be a strong possibility of additional deficit-covering government funds having to be issued. Should that occur, there would be a potential downside effect on the prices of government bonds (though the interest rate would rise), because this would be regarded as a measure running counter to the ongoing fiscal reconstruction policy. The Finance Ministry is increasingly alarmed about such a development, with one official noting, "If all demands made by the ruling parties are met, there would be a shortfall in fiscal resources."

Other proposals up for consideration are the introduction of a fixed-rate tax break of deducting a designated amount from individuals' income, which the New Komeito is demanding, and a measure to make dividends worth less than 2 million yen tax-free, as Secretary General Aso of the Liberal Democratic Party (LDP) has proposed.

The introduction of a large-scale fixed-rate tax cut in the middle of fiscal 2008 would put a dent in tax revenues, necessitating additional issuances of deficit-covering government bonds, the Finance Ministry has warned.

Prime Minister Fukuda ordered the Financial Services Agency to look into a tax-free measure on dividends proposed by Aso. However, the

New Komeito is opposing the proposal as a tax measure that gives preferential treatment to the affluent population. This issue will likely become a future source of contention among the government, the LDP and the New Komeito.

9) Aso-New Komeito combination taking lead in managing political administration, including when to convene Diet session

MAINICHI (Page 2) (Excerpts)
August 14, 2008

The leadership of the ruling Liberal Democratic Party (LDP) and New Komeito, the LDP's junior coalition partner, are urging Prime Minister Yasuo Fukuda to submit a supplementary budget to the next extraordinary Diet session, as well as to convene an extra session in the middle of September or later. In order to stabilize his administration, Fukuda picked Taro Aso as secretary general of the LDP. However, it has now become clear that the Aso-New Komeito combination is gradually grabbing the initiative to manage political administration on such issues as the timing of the opening for the next Diet session and issues for Diet deliberation.

According to Aso, Fukuda told him yesterday at the Prime Minister's Official Residence: "Japan must underscore its view (that war against terror is) an extremely important international issue." Fukuda then underscored the view that it would be necessary to extend the new Antiterrorism Special Measures Law, which will expire on Jan. 15, 2009.

However, an extension of the antiterrorism law has now become difficult since the view is strong among LDP lawmakers that the extra session should be convened in the middle of September or later in a bid to give sole priority to an economic stimulus package. The opposition camp, which controls the House of Councillors, intends to oppose the extension of the law. At present, therefore, in order to extend the law, the ruling bloc would have to take an overriding

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vote in the House of Representatives 60 days after the bill was voted down in the Upper House in order to pass it in the Lower House. But if the extra session were convened in mid-September, it is uncertain whether the bill could be enacted before the end of the year since chances are strong that deliberations on the bill would not start until mid-October.

The New Komeito has taken over active leadership in the ruling coalition, which is calling for placing more importance on economic measures rather than the extension of the new Antiterrorism Special Measures Law. If the coalition camp takes a second vote in the Lower House, public criticism is likely. If so, the New Komeito is concerned that its scenario for having the Lower House be dissolved at the end of the year or early next year may fail.

10) Poll: 71 PERCENT hope DPJ presidential race will be contested by more than one candidate; 23 PERCENT want Ozawa to serve another term

YOMIURI (Page 2) (Full)
August 14, 2008

According to the result of an (interview-based) nationwide survey on the September presidential election of the Democratic Party of Japan (DPJ) the Yomiuri Shimbun conducted on Aug. 9-10, 71 PERCENT of respondents said that the election should be contested by more than one candidate, greatly topping the other 18 PERCENT of the respondents who did not think so. Among those who supported the DPJ, the rate of respondents favoring a multi-candidate election was 76 PERCENT. The poll unveiled that many voters think it desirable for the DPJ to carry out a real election, even though there is a view in the party calling for the uncontested reelection of Ichiro Ozawa for a third term.

Regarding a question about who would be desirable for president, 23 PERCENT picked Ozawa, followed by Naoto Kan with 14 PERCENT, Seiichi Maehara with 10 PERCENT, Katsuya Okada with 9 PERCENT, and Yukio Hatoyama with 7 PERCENT. Among respondents who support the DPJ, 49

PERCENT said Ozawa would be a desirable person, followed by Kan with 17 PERCENT , Okada with 14 PERCENT , Hatoyama with 8 PERCENT and Maehara with 6 PERCENT . Among unaffiliated voters, Ozawa got the highest support rate of 19 PERCENT .

However, only 47 PERCENT of the respondents said they had a strong or somewhat interest in the DPJ presidential race, falling short of 52 PERCENT of the respondents who said they did not have any interest in it.

Regarding a question about whether the DPJ has the capability of assuming the political reins, only 33 PERCENT responded, "Yes," while 55 PERCENT said, "No." As to whether the largest opposition party can implement its policies, 68 PERCENT said the party would not be able to do so.

SCHIEFFER